

# City of Detroit

## CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ.*

DATE: March 9, 2007

RE: Discussion Points on the Budget

As you know, your Honorable Body has several reports before you on the budget, namely:

1. Budget Department's "Quarterly Financial Report for the period ending June 30, 2006"
2. Fiscal's "Budget Department's Quarterly Financial Report for the period ending June 30, 2006 and the Fiscal Analysis Division's Report Update"
3. Budget's "Quarterly Financial Report for the period ending September 30, 2006"
4. Fiscal's "Fiscal Year 2005-2006 Overtime Expenditures and Employee Counts" report
5. Fiscal's "Budget Monitoring Report for the 2006-07 Fiscal Year".

All of which are subject to discussion during today's discussion at 10:30 am. Also recently, Council received the following reports that relates to the City's budget:

1. Budget's "Quarterly Financial Report for the period ending December 31, 2006"
2. Fiscal's "City Council Fiscal Analysis Division's Reaction to the Budget Department's Quarterly Financial Report as of December 31, 2006"

In an attempt to facilitate the 10:30 am discussion today on the City's budget condition, and highlight just major points, I have developed the following "talking points".

### **FY 2006-07**

- Based on our review of all General Fund revenue accounts and appropriations in the City's financial reporting system through December 31,



2006, including known adjustments and assumptions we make, **we project a \$63 million operating deficit for the current 2006-07 fiscal year.**

- The deficit is made up of an estimated revenue shortfall of \$90 million offset by a projected appropriation surplus of \$27 million.
- The \$90 million revenue shortfall is due primarily to lower than expected collections. We see a \$56 million shortfall in major revenues combined, such as income tax, state revenue sharing, property taxes, wagering/casino tax, solid waste fee, utility users tax, and sale of property accounts. We also see a projected \$34 million shortfall in other revenue accounts.
- The \$27 million appropriation surplus is due primarily to departmental vacancies. There were 722 vacant positions in the General Fund departments as of December 31, 2006.
- We recommend that Council pass a resolution acknowledging the projected \$63 million operating deficit for current fiscal year, 2006-07, that was prepared by your Fiscal Analysis Division, and ask for a deficit elimination plan from the Mayor to address it. Our read of the Uniform Budgeting and Accounting Act indicates that when either the Mayor or the Council identify that actual revenues will come in below budgeted expectations, the Mayor is required to submit a plan to address to the deficit. There is one caveat: the Michigan Supreme Court ruled from the Stecher case that the Mayor can take measures in advance, or ahead of time, of the deficit reduction plan to reduce the deficit. But the Mayor, under the Uniform Budgeting and Accounting Act, is still obligated to submit a plan to the Council.
- Our review of the appropriations also identified 40 appropriations that are in a deficit position as of December 31, 2006. Council needs to hear immediately from the Mayor and the Budget Director concerning these deficits what their plans are to correct them. If corrections cannot be made from journal entries, then Council should see some transfers to correct them. No more contracts should come out of these appropriations until corrections are made.
- Our review identified 85 appropriations that could end up with deficit balances as of June 30, 2007. We will keep Council apprised of these appropriations.

#### **FY 2005-06**

- The 2006-07 has \$67 million budgeted in the Prior Year Deficit appropriation representing the 2005-06 projected deficit. We now feel the 2005-06 General Fund deficit will amount to \$163 million. The difference, or additional deficit of **\$96 million needs to be addressed by the Mayor via a deficit elimination plan.** We feel Council should receive such a plan in accordance with the Uniform Budgeting and Accounting Act. One can argue that the State



Treasurer should receive one in according with the State Revenue Sharing Act. Definitely, a deficit elimination plan needs to be submitted to the State to address the deficit that will be recorded the City's Comprehensive Annual Financial Report (CAFR) as of June 30, 2006, or FY 2005-06. We understand that this CAFR may not come out until April, but most likely its submission will be in May. That is troubling because the State may place a moratorium on the City's future bond sales until the CAFR is done. One important sale that is anticipated is another RAN/TAN that would need to be issued by year-end June 30, 2007 to help address cash flow.

#### **Prior Year Deficit Appropriation in the Mayor's Proposed 2007-08 Budget**

- Given that we project a \$63 million budget deficit for 2006-07 and there is a need to address an overage of \$96 million in this year's Prior Year Deficit appropriation, the Council should expect the Mayor to record a **\$159 million Prior Year Deficit appropriation in his proposed 2007-08 budget he will submit to Council on April 12<sup>th</sup>**. Of course, if the Mayor disagrees with our projections, he should explain why not.

#### **Overtime Report for 2005-06**

- The administration has made a concerted effort in the last 2 fiscal years to reduce the amount of overtime.
- 2005-06 fiscal year ended with \$64 million in overtime compared to \$71 million in 2004-05. Citywide, that is a \$6 million (9%) decrease; there was \$1 million (3%) decrease in General Fund overtime.
- One alarming note, however, is that the average amount of overtime earned per employee increased by 30% from eight years ago. This has occurred even though many employees are in titles that do not earn overtime, and the number of employees have dropped by approximately 4,000 (23%) from 1992 to 2006.

We would now respond to questions.